REPORT OF THE
FINANCIAL EXAMINATION OF

BARTON MUTUAL INSURANCE COMPANY

AS OF
DECEMBER 31, 2007

STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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January 26, 2009
Liberal, Missouri

Honorable John M. Huff, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Sir:

In accordance with your examination warrant, a full-scope examination has been made of the records, affairs and financial condition of

BARTON MUTUAL INSURANCE COMPANY

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 120 South Main Street, Liberal, Missouri 64762, telephone number (417) 843-6265. This examination began on October 20, 2008, and was concluded on October 23, 2008, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination of the Company was made as of December 31, 2001, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2002, through December 31, 2007, and was conducted by examiners from the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP).

This examination also included material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

Procedures

This examination was conducted using the guidelines set forth in the Financial Examiners Handbook of the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the DIFP and statutes of the State of Missouri prevailed.

Comments-Previous Examination Report

The comments, recommendations, and notes of the previous examination report dated December 31, 2001, are listed below followed by the Company's response and the current examination findings regarding such comments, recommendations and notes.

Fidelity Bond

Comment: The Company was directed to increase its fidelity bond coverage to $200,000.

Company Response: The Company increased its fidelity bond coverage to $200,000.

Current Findings: The Company increased its fidelity bond coverage as recommended.

Reinsurance

Comment: The Company was directed to amend all reinsurance agreements with Gateway Mutual Insurance Company to reflect its name change from Owensville Mutual Insurance Company.

Company Response: The Company amended its reinsurance agreements to update the name to Gateway Mutual Insurance Company.

Current Findings: The Company amended its reinsurance agreements as directed.

Reinsurance

Comment: The Company was directed to amend its ceding reinsurance agreements with Cape Mutual Insurance Company and Gateway Mutual Insurance Company to reflect the actual amount being retained by the Company.

Company Response: The reinsurance agreements were amended to reflect the actual retentions of the Company.

Current Findings: The Company amended the reinsurance agreements as directed.

Accounts and Records

Comment: The Company was directed to ensure that deposits in any one financial institution do not exceed FDIC insurance amounts.

Company Response: The Company obtained guaranty bond coverage for deposits in excess of FDIC coverage limits.

Current Findings: The Company's cash deposits appear to be adequately protected.

Financial Statements

Comment: The Company was directed to ensure its guaranty fund is reported on future annual statements.

Company Response: The Company began reporting a guaranty fund.

Current Findings: The Company reported a guaranty fund on annual statements during the examination period.

HISTORY

General

The Company was originally incorporated on March 19, 1894, as Farmers Mutual Fire Insurance Company of Barton County, Missouri. On March 1, 1969, the Company changed its name to Barton County Mutual Insurance Company. On February 17, 2001, the Company changed its name to Barton Mutual Insurance Company.

The Company has a Certificate of Authority dated July 9, 2001, and is covered by Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Insurance Companies). The Company's Certificate of Authority is renewed annually.

Management

In accordance with the Articles of Incorporation, the annual meeting of the Company's members is held on the third Saturday in February at the home office of the Company or at such other place and time as may be designated. Special meetings of the members may be called by the Board of Directors at any time, and shall be called upon petition of one-fourth of the members. Eight members constitutes a quorum. Proxy voting is permitted.

The management of the Company is vested in the Board of Directors, who are elected from the general membership. The Board of Directors consists of seven members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately every month, and the directors are compensated $50 per each meeting attended.

Members serving on the Board of Directors as of December 31, 2007, were as follows:

Name and Address	Occupation	Term
Carl E. Arft 1905 Crestwood Drive Lamar, Missouri	Retired	2007-2010
Vern Hutchison 35422 Maries Road 612 Vienna, Missouri	Insurance Agent	2007-2010
P. Kevin DeVoy 748 Tomahawk Drive Brookfield, Missouri	Insurance Agent	2005-2008
Mark Gardner 1414 East Primrose, Suite 100 Springfield, Missouri	Attorney/Real Estate Investor	2005-2008
James L. Thurman Route 2 Box 94 Ava, Missouri	Retired	2006-2009
Scott George 1605 Kayla Lane Mt.Vernon, Missouri	CEO – Dental Offices	2006-2009
Dennis Wilson 759 North FF Highway Liberal, Missouri	Farmer/County Commissioner	2005-2008

The Board of Directors appoints for a term of one year, the officers of the Company. The officers of the Company serving at December 31, 2007, were as follows:

Thomas J. Shaw	President/Treasurer
Sally Fast	Vice-President
Fred M. Shaw	Secretary

Conflict of Interest

The Company has written conflict of interest procedures for the disclosure of material conflicts of interest or affiliations by its directors and officers. The Company has its directors and officers sign conflict of interest statements on an annual basis. Noted disclosures included one director who owns an agency, another who is an agent for the Company and two others who are also serve on the boards of the related companies of Cape Mutual Insurance Company (Cape Mutual) and Gateway Mutual Insurance Company (Gateway Mutual). These relationships do not appear to negatively impact the Company's ongoing business operations.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. The Articles of Incorporation were not amended during the examination period. On December 16, 2004, the Bylaws were amended to update the official seal, make the Secretary the official signatory of the seal and to delete operational protocol regarding premium collection and meeting notice.

The minutes of the membership and the Board of Directors' meetings were reviewed for the period under examination. The minutes and records of the Company appear to properly reflect corporate transactions and events.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a fidelity bond, which also provides coverage to its related companies Cape Mutual and Gateway Mutual. The bond provides a limit of liability of $500,000, with a $20,000 per loss deductible. The fidelity bond coverage meets the minimum amount suggested in the guidelines promulgated by the NAIC.

The Company is a named insured, along with related parties Cape Mutual and Gateway Mutual, on a directors and officers liability policy with an aggregate limit of $2,000,000 and a deductible of $50,000 per claim.

The Company utilizes only independent agents, who are required to furnish documentation of errors and omissions insurance coverage.

Other insurance coverages carried by the Company include the following: home office premises and personal property, general liability and commercial umbrella, workers compensation, automobile and employment practices liability.

The insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has approximately sixty full-time employees. Employees receive paid annual leave, sick leave and holiday benefits, as well as group health, long-term disability and term life insurance. Employees may also participate in a 401(k) retirement plan, under which the Company offers matching funds. It appears the Company has made adequate provisions for the benefits in the financial statements.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

The Company is licensed by the DIFP as an Extended Missouri Mutual Insurance Company operating under Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Insurance Companies). The Company is authorized to write fire, wind and liability insurance in all counties in the State of Missouri. The Company writes fire, and wind and liability coverages. The Company's policies are sold by an independent agency force of approximately one thousand agents. Agents receive a 14% commission and are eligible for bonus commissions if certain loss ratio results are met.

The Company is party to expense agreements with both Cape Mutual and Gateway Mutual. Under the terms of the agreements, the Company provides essentially all services necessary for the operation of these companies, including employee services and office space. In return for these services, Cape Mutual pays 13.96% and Gateway Mutual pays 13.31% of monthly direct written premium to the Company. In addition, Barton receives set monthly rent and utility payments from both companies as outlined in the agreements.

Policy Forms and Underwriting Practices

The Company utilizes AAIS and custom policy forms. The policies are renewed every three years. Property inspections and adjusting functions are performed by Company employees. Rates are determined by the Board of Directors. Renewal billings are mailed directly to the insured.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	Admitted Assets	Liabilities	Gross Premiums	Gross Losses	Underwriting Income	Net Income
2007	$18,987,416	$10,691,497	$24,380,717	$13,114,268	$ 267,726	$ 589,453
2006	19,564,664	11,766,521	24,458,458	21,670,287	(569,485)	(29,584)
2005	19,297,455	11,413,750	22,840,936	6,947,567	4,322,109	3,204,038
2004	14,504,150	10,222,575	21,463,406	9,700,821	392,371	412,760
2003	12,947,215	8,727,344	18,377,279	13,198,194	(721,973)	(494,288)
2002	11,662,013	6,947,855	14,841,237	7,252,011	(400,480)	(5,375)

At year-end 2007, 27,890 policies were in force.

REINSURANCE

General

The Company's reinsurance premium activity on a direct-written, assumed and ceded basis for the period under examination is shown below:

	2002	2003	2004	2005	2006	2007
Direct	$12,125,932	$15,052,359	$17,193,577	$18,895,189	$20,004,038	$20,255,620
Assumed	2,715,304	3,324,920	4,269,829	3,945,747	4,454,420	4,125,097
Ceded	(5,386,571)	(6,939,215)	(8,513,509)	(9,734,710)	(10,732,622)	(10,119,702)
Net	$ 9,454,665	$11,438,064	$12,949,898	$13,106,226	$13,725,836	$14,261,015

Assumed

The Company participates in a reinsurance pool with MAMIC Mutual Insurance Company (MMIC). The agreement pertains to errors and omissions policies and director and officer liability policies written by MMIC. MMIC cedes 100% of the first $1,000,000 each claim and in aggregate on all insurance agent and broker errors and omissions policies and 100% of the first $2,000,000 each claim and in aggregate on all officer and director liability policies to the pool. MMIC receives a 35% ceding commission of net written premium ceded to the pool. The Company has a 5% share in the interests and liabilities of the pool.

The Company is a member of the Missouri Mutual Reinsurance Exchange (MMRE), which is a group reinsurance pool consisting of six Missouri mutual insurance companies and managed by

Guy Carpenter. Each pool participant is party to a memorandum of agreement, under which risk and premium assumptions are based proportionately on the risks ceded by each company to the pool. Overall pool participation for the Company in 2007 was approximately 29%.

The Company assumes property risks from Cape Mutual under an obligatory pro rata agreement. Under the agreement, the Company assumes $70,000 each risk in excess of Cape Mutual's combined retention and underlying reinsurance of $60,000.

The Company assumes property risks from Gateway Mutual under an obligatory pro rata agreement. Under the agreement, the Company assumes $80,000 each risk in excess of Gateway Mutual's combined retention and underlying reinsurance of $80,000.

The Company assumes property risks from Boeuf & Berger Mutual Insurance Company (Boeuf & Berger) under an obligatory pro rata agreement. Under the agreement, the Company assumes $20,000 each risk in excess of Boeuf & Berger's combined retention and underlying reinsurance of $100,000.

Ceded

Some of the retentions and limits that are supposed to be included in the Company's reinsurance agreements could not be verified during our review of the agreements. For example, the 2007 Annual Statement explained that the Company retained $95,000 per property risk for its own account; however, this retention level could not be located in the terms of any of the reinsurance contracts. The terms of future reinsurance agreements should be written so that the Company's retentions and the limits of coverage provided by the reinsurers are clearly specified.

Below is a summary of the Company's ceded reinsurance contracts as explained by the Company.

The Company has several layers of reinsurance for its property risks. The Company retains the first $95,000 per risk and cedes the remaining risks to its reinsurers on a pro rata basis.

The Company has a surplus pooling agreement with MMRE. Under the agreement, the Company cedes premium and losses to MMRE on a pro rata basis related to the next $20,000 per risk in excess of the Company's retention. The Company receives a 35% ceding commission on premiums ceded under the agreement.

The Company has obligatory pro rata reinsurance agreements with Cape Mutual and Gateway Mutual. Under the agreement with Cape Mutual, the Company cedes premium and losses on a pro rata basis related to the next $30,000 layer per risk in excess of the Company's retention and underlying reinsurance layer. Under the agreement with Gateway Mutual, the Company cedes premium and losses on a pro rata basis related to the next $30,000 layer per risk in excess of the Company's retention and underlying reinsurance layers. The Company receives a 35% ceding commission under each agreement.

The Company has a property surplus reinsurance contract placed through intermediary Guy Carpenter & Company Inc. of Pennsylvania (Guy Carpenter) with various reinsurers. Under the contract, the Company cedes premium and losses on a pro rata basis related to the next $150,000 layer per risk in excess of the aforementioned underlying reinsurance and retention. Participating reinsurers included Arch Reinsurance Company (37.25%), QBE Reinsurance Corporation (27.00%), Aspen Insurance UK Limited (16.50%), The TOA Reinsurance Company of America (13.00%) and Employers Mutual Casualty Company (6.25%).

The Company has a property pro rata facultative reinsurance contract placed through Guy Carpenter with various reinsurers. Under the contract the reinsurers accept premium and losses on a pro rata basis related to the next $1,000,000 layer per risk in excess of the aforementioned underlying reinsurance and retention. The Company receives a 22.5% ceding commission on business ceded under the contract. Participating reinsurers included Arch Reinsurance Company (37.50%), The Hartford Steam Boiler Inspection and Insurance Company (32.50%), Aspen Insurance UK Limited (15.00%), The TOA Reinsurance Company of America (11.50%) and Farmers Mutual Hail Insurance Company of Iowa (3.50%). Risks in excess of the underlying reinsurance and Company retentions described above are ceded on an individual basis and terms to various reinsurers on a facultative basis.

The Company has a property catastrophe earthquake only excess of loss reinsurance contract placed through Guy Carpenter with various reinsurers. Under the terms of the contract, the reinsurers provide coverage of $5,000,000 in excess of $4,000,000 per occurrence. The contract may be reinstated, but the reinsurers' liability shall not exceed $5,000,000 per occurrence or $10,000,000 for the year. Participating reinsurers included Arch Reinsurance Company (37.00%), QBE Reinsurance Corporation (25.00%), Aspen Insurance UK Limited (14.50%), The TOA Reinsurance Company of America (12.00%), Employers Mutual Casualty Company (6.00%) and Scor Reinsurance Company (5.50%).

The Company has a second property catastrophe earthquake only excess of loss reinsurance contract placed through Guy Carpenter with various reinsurers. Under the terms of the contract, the reinsurers provide coverage of $9,000,000 in excess of $9,000,000 per occurrence. The contract may be reinstated, but the reinsurers' liability shall not exceed $9,000,000 per occurrence of $18,000,000 for the year. Participating reinsurers included various Lloyd's Syndicates (70.00%), Sirius International Insurance Corporation (20.00%) and Lansforsakringar Sak Forsakrings AB (10.00%).

The Company has an underlying aggregate excess of loss reinsurance contract placed through Guy Carpenter with Gateway Mutual. Under the contract, the reinsurer is liable for 100% of the Company's losses in excess of 62.5% the Company's earned premium, limited to the lesser of $337,500 or 2.5% of earned premium.

The Company has an aggregate excess of loss reinsurance contract placed through Guy Carpenter with various reinsurers. The contract has two layers. Under the first layer, the reinsurers are liable for 95% of losses in excess of 65% of the Company's earned premium, subject to a limit of 95% of the lesser of $3,562,500 or 25% of earned premium. Major participants included R+V Versicherung AG (25.0%), Employers Mutual Casualty Company (15.0%), Farm Mutual Reinsurance Plan, Inc (15%), various Lloyd's Syndicates (13.5%) and Protective Insurance Company (10.0%). Under the second layer, the reinsurers are liability for 95% of losses in excess of 90% of the Company's earned premium, subject to a limit of 95% of the lesser of $7,200,000 or 50% of earned premium. Major participants included various Lloyds Syndicates (26.7%), R+V Versicherung AG (25.0%), Lansforsakringar Sak Forsakrings AB (10.0%), Farm Mutual Reinsurance Plan, Inc (15%), Protective Insurance Company (10.0%) and Sirius International Insurance Corporation (10.0%).

The Company has a casualty excess of loss reinsurance placed through Guy Carpenter with various reinsurers that covers the Company's liability coverage exposures. Under the three layers of this contract, the reinsurers provide coverage limited to $1,900,000 per occurrence in excess of the Company retention of $100,000 per occurrence and an annual deductible of $100,000. Participating reinsurers included Arch Reinsurance Company (37.25%), QBE Reinsurance Corporation (27.00%), Aspen Insurance UK Limited (16.50%), The TOA Reinsurance Company of America (13.00%) and Employers Mutual Casualty Company (6.25%).

The Company has an umbrella facultative reinsurance contract through Guy Carpenter with various reinsurers that covers the Company's personal and farm umbrella liability exposures. The Company cedes 95% of the first $1,000,000 and 100% of the next $4,000,000 in losses per occurrence per policy to the reinsurers. Participating reinsurers included GE Reinsurance Corporation (55.00%), The TOA Reinsurance Company of America (30.00%) and QBE Reinsurance Corporation (15.00%).

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that any assuming reinsurer should fail to perform its obligations under its reinsurance agreement with the Company.

ACCOUNTS AND RECORDS

The Company maintains its records on an accrual basis. The CPA firm of Van de Ven, LLC performs an annual audit of the Company's financial statements and prepares the annual statement and tax filings.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2007, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the Annual Statement and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the Financial Statements. (The failure of any column of numbers to add to its respective total is due to rounding or truncation.)

There may have been differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial, concerning their effect on the financial statements. Therefore, they were communicated to the Company and noted in the workpapers for each individual annual statement item.

ANALYSIS OF ASSETS
December 31, 2007

Bonds	$ 8,244,058
Stocks	521,952
Real Estate	232,110
Cash on Deposit	8,186,855
Reinsurance Recoverable on Paid Losses	1,266,954
Computer Equipment	13,963
Interest Due and Accrued	111,032
Subrogation Estimates	32,162
Other Accounts Receivable	146,689
Prepaid Expenses	68,252
Other Assets	163,389

Total Assets	$ 18,987,416
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LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2007

Losses Unpaid	$ 2,161,078
Loss Adjusting Expense Unpaid	684,871
Ceded Reinsurance Premium Payable	386,102
Unearned Premium	6,026,597
Federal Income Tax Payable	340,076
Accounts Payable	495,439
Premium Tax Liability	22,232
Premium Deposits	502,080
Accrued Expenses	73,022

Total Liabilities	$ 10,691,497

Guaranty Fund (Note 1)	$ 1,600,000
Other Surplus	6,695,919

Total Surplus	8,295,919

Total Liabilities and Surplus	$ 18,987,416
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STATEMENT OF INCOME
For the Year Ending December 31, 2007

Net Premiums Earned		$ 13,977,336
Other Insurance Income		793,476
Net Losses & Loss Adjustment Expenses Incurred		(8,304,246)
Other Underwriting Expenses Incurred		(6,198,840)
Net Underwriting Income (Loss)	$	267,726
Investment Income		661,803
Gross Profit (Loss)	$	929,529
Federal Income Tax		(340,076)
Net Income (Loss)	$	589,453

CAPITAL AND SURPLUS ACCOUNT
December 31, 2007

Policyholders' Surplus, December 31, 2006	$ 7,798,143
Net Income (Loss)	589,453
Unrealized Gain on Marketable Securities	5,323
FTF Collateral Loan (Non-Admitted Asset)	(97,000)
Policyholders' Surplus, December 31, 2007	$ 8,295,919

NOTES TO THE FINANCIAL STATEMENTS

Note 1 – Guaranty Fund

The Company overstated the guaranty fund required by Section 380.271 RSMo. (Financial Reinsurance Requirements). The maximum aggregate guaranty fund required by the statute is \$1,600,000, while the amount reported on the 2007 Annual Statement was \$3,258,162. An examination change was made to decrease the guaranty fund by \$1,658,162, with a corresponding increase of \$1,658,162 to other surplus. The examination change had no affect on the total policyholder surplus balance.

EXAMINATION CHANGES

As disclosed in Note 1 above, the only examination change was related to the guaranty fund and resulted in no change to total policyholder surplus.

GENERAL COMMENTS AND RECOMMENDATIONS

Reinsurance (Page 8)

The terms of future reinsurance agreements should be written so that the Company's retentions and the limits of coverage provided by the reinsurers are clearly specified.

SUBSEQUENT EVENTS

None.

ACKNOWLEDGMENT

The assistance and cooperation extended by the employees Barton Mutual Insurance Company during the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)
) ss
County of Cole)

I, Shannon W. Schmoeger on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only the facts appearing upon the books, records or other documents of the company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

Shannon W. Schmoeger, CFE
Financial Examiner
Missouri DIFP

Sworn to and subscribed before me this 17th day of February, 2009.

My commission expires:

May 18, 2012

Kimberly Landers
Notary Public

KIMBERLY LANDERS
MY COMMISSION EXPIRES May 18, 2012
NOTARY SEAL
CALLAWAY COUNTY #08558402
NOTARY PUBLIC, STATE OF MISSOURI

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

Tim Tunks, CFE, CPA
Examiner In Charge
Missouri DIFP